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Analysis of Business Trends Plus Selected Financial Indicators

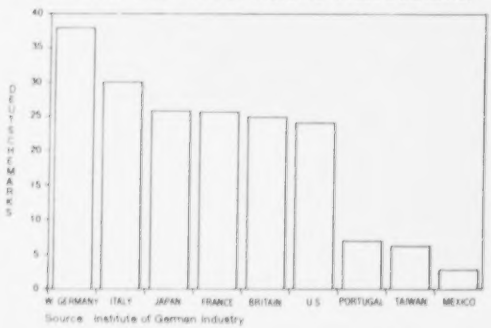
Wage Pressures Build In Germany

Expectations that European interest rates would begin to descend within the near future were dealt a setback in early February by a wage settlement in Germany, which granted steel workers there a 6.4 percent pay hike. While this agreement involved only a small number of workers, and wage pacts in one country do not normally have significant international ramifications, this one did, since the single most important factor determining how quickly the German Bundesbank loosens its monetary grip will be the outcome of this spring's wage negotiations. And until the Bundesbank lowers German interest rates, the other European central banks will have their hands tied. They will be forced to keep their own interest rates at current lofty levels because of the European Monetary System's objective of promoting foreign exchange market stability (Financial Digest, January 20, 1992).

Since the pay settlement in the steel industry was the first wage pact concluded this year, it might influence the major round of pay talks this spring, when IG Metall, Germany's largest and most powerful labor union, negotiates wages for nearly four million metal and engineering workers. Warily watching from the sidelines will be the Bundesbank, which has repeatedly warned against the inflationary dangers of excessive wage settlements. It is widely believed that a major reason why the central bank raised its key interest rates last December, notwithstanding the softening pace of business, was to send a tough message to negotiators that it would not tolerate what it deems to be overly-generous pay settlements this year. Unfortunately, the warnings seemed to have fallen on deaf ears, since the 6.4 percent wage agreement is well outside the five percent range that the German government stated was the most that the economy could afford.

While seemingly ignoring the Bundesbank's message, the steel workers and their employers sent their own signal back to the German government. Despite such persistent problems in the steel industry as low productivity, hefty layoffs and mounting losses, the overwhelming size of the vote to strike—a 95 percent turnout and an 87 percent majority in favor of a walkout—demonstrated that the workers were willing to stop work in order to obtain their pay demands. At the same time, employers expressed their desire to avoid confrontation, accepting a settlement in excess of six percent even before the walkout began, thereby encouraging union members in other industries throughout Germany. Immediately following the agreement, IG Metall indicated that the steel settlement would act as a bellwether for the engineering workers when their pay negotiations begin next month, with pay talks in the banking, construction and public sectors following soon thereafter.

LABOR COSTS IN SELECTED COUNTRIES
HOURLY LABOR COSTS (INCLUDING WAGES & BENEFITS)



Source: Institute of German Industry

Negative Consequences

While the outcome of the steel negotiations avoided a strike, which would have been particularly damaging to Germany's important auto industry, it appears to have set a precedent that neither industry, labor nor the economy can afford to follow. For one thing, German labor costs, already the highest in the world, will increase further. According to the Institute of German Industry, the average German worker cost almost 38 marks, or $24 an hour in wages and benefits at the end of 1990, compared with average labor costs of around 25 marks, or roughly $16 per hour in such countries as Japan, the United Kingdom and the United States. The latest agreement is estimated to cost the industry up to 600 million marks a year. This could dampen capital spending and encourage companies to move operations elsewhere. In 1990, German companies invested almost 30 billion marks abroad, ten times the amount of foreign direct investment in Germany. The gap widened even further last year.

Economics Department 17/270

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For another, excessive wage hikes could also darken an already deteriorating employment picture. The engineering industry said that 20,000 workers were laid off last year because of high labor costs and warned that a further 50,000-60,000 workers could lose their jobs this year if restraint evaporated in the upcoming wage round. Indeed, Germany's latest employment data reinforced the importance of these warnings: The number of jobless workers in western Germany jumped to 1.9 million in December, bringing the unemployment rate to seven percent from 6½ percent in November. Including the 1.3 million jobless in the east, there are now 3.2 million workers without jobs in all of Germany. In fact, the number of unemployed workers in the five eastern provinces jumped by over 300,000 in December, the largest monthly rise since the two economies merged in July 1990. Thus, given eastern Germany's huge investment needs and the deteriorating job picture nationally, it is disturbing that a pay pact was reached which could well serve to enhance the allure of overseas operations.

High interest rates, rising labor costs and shrinking company profits do not bode well for Germany's economic health. Although the government has so far avoided using the "R" word, by some definitions the country is already in re-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/5/92)	161,401	+ 753	- 50,412
New York City (2/12/92)	28,637	- 125	- 5,311
Commercial Paper (2/12/92)	533,869	- 1,512	- 33,717

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/5/92)	290,774	+ 2,078	- 29,287
New York City (2/12/92)	50,116	- 1,096	- 7,194

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/5/92)	1,025,094	+ 9,507	- 37,548
New York City (2/12/92)	162,440	- 4,099	- 14,484

Financial Markets

	Friday 2/21/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.01%	+ .13	- 2.10
180-Day Bills†	4.16	+ .13	- 2.05
Longest Bills†	4.41	+ .13	- 1.89
Recent Issues:			
4⅞s 1/31/94	5.41	+ .20	
6¼s 1/31/97	6.74	+ .13	
7½s 11/15/01	7.44	+ .04	
8s 11/15/21	7.94	+ .04	
Municipals:			
Bond Buyer—20 Bond Index* (2/20/92)	6.75%	+ .01	+ .04
Blue List Total ($ Million)	$1,341	- $ 106	- $ 104
30-Day Visible Supply ($ Million)	$5,290	- $1,216	+$2,635
Total	$6,631	- $1,322	+$2,531
Corporates:			
Moody's Aa Composite (2/20/92)	8.71%	+ .05	+ .12
30-Day Visible Supply ($ Million)	$1,015	- $ 520	+$ 312
Stocks:			
Dow-Jones Averages:			
Industrials	3,280.19	+ 34.22	+390.82
Transportation	1,466.93	+ 60.73	+341.58
Utilities	204.24	- 3.57	- 11.12
65 Stocks	1,190.57	+ 19.44	+157.33
N.Y.S.E. Composite Index	227.46	- .70	+ 27.82
N.Y.S.E. Avg. Daily Vol. for Week (000's)	242,559	+ 33,495	+48,820

*34% Taxable equivalent 10.23%. † Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/21/92	Week Ago
Overnight	4.13%	4.38%
1 month	4.19	4.25
3 month	4.28	4.25
6 month	4.38	4.38
1 year	4.75	4.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/21/92)	Currency Per U.S. $	Week Ago
Belgium	33.78	33.35
Canada	1.1841	1.1860
France	5.5891	5.5176
Germany	1.6435	1.6200
Italy	1233.03	1217.03
Japan	128.55	127.45
Mexico	3106.60	3105.20
Netherlands	1.8490	1.8235
South Korea	753.43	749.78
Switzerland	1.4840	1.4885
Taiwan	24.80	24.71
U.K.*	1.7513	1.7743

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (2/21/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.4%	-11.0%

cession. The economy contracted in 1991's second and third quarters (quarter-over-quarter), and the central bank just announced that the GDP fell 0.5 percent in the final quarter, making it three quarterly declines in a row. This is not surprising, given December's dismal economic statistics—in particular, a whopping 3.1 percent drop in industrial output compared with November. Widespread forecasts that the western German economy will expand by an inflation-adjusted 1½ percent this year, based on average wage settlements of 5½ percent and lower interest rates by mid-year, are now in jeopardy—and will probably have to be scaled back.

Pan-European Business Blues

Given the ever-closer linkages of the European economies, slow, or no growth in Germany is contagious. Germany absorbs nearly 19 percent of French exports, 22 percent of Italy's and 14 percent of the United Kingdom's. As the German appetite for imports wanes, everyone else goes on a diet. And, with the Bundesbank committed to maintaining lofty interest rates until such time as an inflation-friendly pattern of wage settlements emerges, Europe finds itself locked into a dilemma—experiencing stagnating business conditions, yet remaining blanketed by painfully lofty interest rates.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/19/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	271.928	+ 3.882	+25.368
Loans to Depository Inst.	.081	+ .024	- .202
Float	1.130	+ .409	+ .181
Total Reserve Bank Credit	306.897	+ 4.099	+19.885
Treasury Deposits with Federal Reserve Banks	5.874	- .710	- 3.854
Currency in Circulation	302.712	+ 1.306	+17.932
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	269.574	+ 1.161	+15.410
Member Bank Reserves:	2/19/92		
Total Reserves Held	55.604	+ 1.131	+ 6.918
Excess (Deficiency)	1.177	+ .150	- .576
Net Free Reserves	1.110	+ .211	- .491

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (2/10/92)	926.6	+ 15.2	+ 10.4
M2 (2/10/92)	3,476.2	+ 6.6	+ 3.6
M3 (2/10/92)	4,202.2	+ 4.3	+ 1.2
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 2/21/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.94%	4.04%	4.25%
* Federal Agencies	3.95	4.15	4.55
* Municipal Notes–High Grade (34% Taxable Equivalent)	3.79	3.86	4.16
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	4.25	4.38	4.75

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.95%	Mar.	4.08%
15- 29 days	4.08	Apr.	4.08
30- 59 days	4.13	May	4.08
60- 89 days	4.15	Jun.	4.10
90-179 days	4.19	Jul.	4.13
180-239 days	4.20	Aug.	4.13
240-270 days	4.20		

‡ Industrial Paper–Prime			
30- 89 days	4.09%	†Federal Funds Effective Rate	3.63%
90-120 days	4.10		

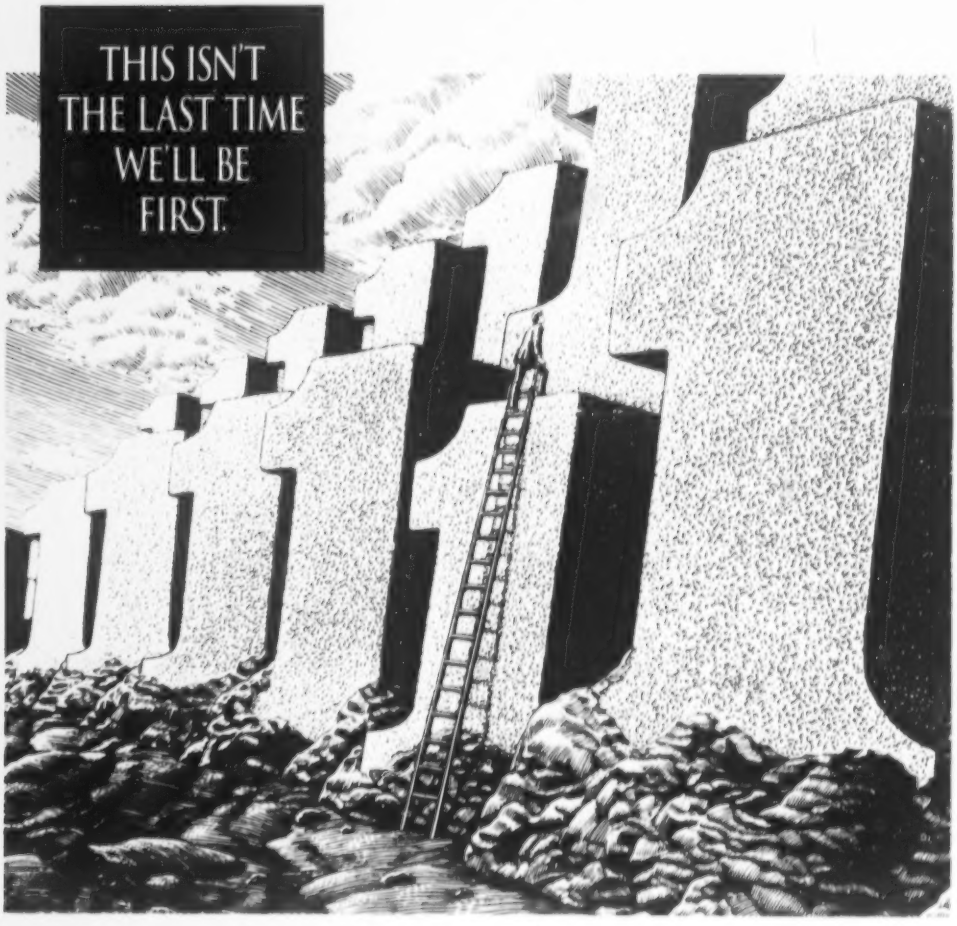
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	4th Q'91	$ 5,737	$ 5,709	$ 5,558
Gross Domestic Product (1987 Dollars)*	4th Q'91	$ 4,866	$ 4,863	$ 4,855
Percent Change, Annual Rate	4th Q'91	0.3	1.8	- 3.9
Change in Consumer Prices*	Jan '92 n	1.2%	2.4%r	4.8%r
Change in CHEM Cost of Living Index*	Jan '92 n	1.2%	1.2%r	8.4%r
Change in Producer Prices*	Jan '92 n	3.6%	- 1.2%r	- 2.4%
Civilian Employment (Thousands of Persons) †	Jan '92	117,117	116,728	116,977
Unemployment as % of Civilian Labor Force †	Jan '92	7.1%	7.1%	6.2%
Personal Income*	Dec '91	$ 4,923	$ 4,874	$ 4,790
Leading Indicators Composite Index (1967=100) †	Dec '91	144.8	145.2	139.4
Industrial Production Index (1977=100) †	Jan '92 n	106.7	107.6r	106.6
Net Change in Consumer Installment Credit †	Dec '91 n	$ 1.72	- $ 0.17r	- $ 1.31
U.S. Merchandise Trade Balance †	Dec '91 n	$ 5.94	- $ 4.17r	- $ 6.32
Plant and Equipment Expenditures*	1st Q'92	$ 563.3(a)	$ 532.0(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Jan '92 n	1,167	1,106r	847
New Construction Expenditures*	Dec '91	$ 407.4	$ 408.4	$ 421.3
Total Business Inventories †	Dec '91 n	$ 817.4	$ 813.9r	$ 825.4r
Total Business Sales †	Dec '91 n	$ 533.5	$ 542.8r	$ 535.1r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



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